ORGANIZATION AND OPERATION OF ECA

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CONTENTS

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GENERAL HOLMAN: Gentlemen, our hope of avoiding future armed conflicts depends very largely on the success or failure of the European Recovery Program. The problems and objectives of the Economic Cooperation Administration are therefore of particular importance to us as individuals as well as to those in government and in industry. To the military student the study of the work of the ECA will lead one to the conclusion that national strategy can be expertly directed all along the economic front as well as on the fighting front.

Our speaker this morning is here to tell us about the problems and objectives of ECA. He is the Deputy to the Assistant Administrator for Program of that organization. It is a pleasure to introduce to the Industrial College of the Armed Forces and to the National War College, Mr. Harlan Cleveland.

MR. CLEVELAND: Gentlemen of the combined colleges, I would like to try this morning to give you some idea of how fighting the cold peace looks from the standpoint of its economic side. As the General indicated, we in ECA consider ourselves very much in the front line of the effort to prevent a next war; and from that standpoint the figures and statistics and economic analyses, which are the terms in which we do our business, assume great significance. This front-line position keeps our morale pretty high even in the midst of our congressional presentation.

First of all, I would like to summarize what the Marshall Plan as a whole is about. We think of it as an aid program, but our aid to the countries of Europe, the 18 participating countries, is only a marginal, a fractional, a component part of a total picture; and it is the total picture to which I would like to direct your attention this morning.

Basically, what are we up to in Europe? Our aim is to improve the competitive position of western Europe in relation to other parts of the world and particularly in relation to the United States. The trouble in the world today, to put it in a much over-simplified nutshell, is that the economies of the European countries are just too weak to compete with the great strength that is our competitive economy.

Back before the First World War we had only about 10 percent of the world's export market for manufactures; and Europe furnished something like 80 percent. But from that point on, Europe's position in the world's export trade has gone down very rapidly in relative terms. By 1938 the Europeans had only a little more than half of the export market for manufactures, and we moved up to a position of nearly a quarter. In 1948, if you exclude trade within Europe, we actually were selling more manufactures to the world than the whole of western Europe. Our share was 42 percent, as against their 38.

Why was this? Primarily, because the rate of growth of their economies, or, speaking more accurately, the rate of growth of their productivity or output per man-hour, was consistently falling behind ours. The United States economy increases its productivity, its output per man-hour, something like 3 percent, more or less, per year. The European countries have seldom reached 2 percent per year; and the rate of economic growth in Britain has been especially slow, more like one and a half percent a year. All of these percentages sound small. But if you consider them as compound interest, the small percentage differences are very significant indeed over a period of ten, twenty, or thirty years. These differences in total productivity, of course, make for differences in relative competitive strength--that is, in relative ability to make low-cost goods and sell them in the export market in competition with American goods.

Now, before the war this state of affairs, in which Europe was constantly falling off in ability to compete with us, was to some extent hidden. Primarily it was hidden in the thirties by the greatly reduced demand of Europe for imports as a result of the depression, the fact that standards of living were brought down by the depression all over the world, and by unemployment. It was hidden also by favorable terms of trade; that is to say, they were getting favorable prices for their exports from Europe in relation to the prices they had to pay for the primary products they imported. The balance was also redressed, and the true facts about the productivity race further hidden, by income flowing into Europe from very large investments by the European countries outside Europe, particularly the investments of England abroad.

Finally, it was possible for Europe to earn the dollars that it needed (to buy the materials that it had to buy from us) from "third countries" which were running an export surplus with us in materials; for example, to earn dollars from Indonesia and other Southeast Asia countries.

But the war made drastic changes in this whole picture. Europe lost virtually all its foreign investments. In fact, England's position in respect to foreign investments, which were such a big factor in earning money for the English from year to year before the war, was by the end of the war completely reversed; and they owed India, Pakistan, and other countries a lot of money. Europe lost the opportunity, that had previously been so important, to earn dollars through triangular trade with southeastern Asia. The overseas territories of the individual European countries in Africa and in the Far East, which previously had been able to earn very large sums for their mother countries, are now having considerable difficulty in even balancing their accounts with the dollar area. And to top it off, the terms of trade turned against the Europeans; that is to say, the prices of primary products increased in relation to the prices of manufactured goods--and it is mostly manufactured goods that Europe sells to the rest of the world.

The economy of a trading nation is not unlike an individual business. An individual firm has to show a profit or break even over a period of time or go out of business. That is not altogether true of a nation, but it comes terribly close to being true. But in this postwar period, England, France, and most of the other countries of Europe have in a sense been living beyond their means. They have been able to do so, of course, primarily because of various types of loans and grants made available to them by the U. S. Government since the end of the war.

In summary, then, the reason for this postwar dollar shortage is to be looked for in the low rate of productivity and the high costs in Europe, and consequently the higher export prices of western Europe as compared to the United States, which in turn exaggerate the demand from every area of the world for dollar goods and consequently make it necessary for controls to be established by each of the European countries, since they do not have any system of going it as a group against this dollar competition. As a result of these circumstances, Europe has been running a deficit that in 1947 reached over 7 billion dollars and in 1948 was around 5.5 billion dollars.

I think it is helpful, too, to look at this not just as a European problem, but also as a United States problem. From our own point of view as Americans, the basic problem with which we are faced is the tremendous tendency of the United States economy to run a large export surplus, to accept relatively small imports but to export at high levels. This tendency is not limited to the last few years. We have run a total export surplus during the last twenty-five years or so, beginning with 1914, of about 100 billion dollars. The only way to run an export surplus consistently, of course, was to finance the surplus ourselves; and, so far as two-thirds of that 100 billion dollars is concerned, that is precisely what we did, through loans and grants during and after the First World War, through Lend-Lease, through UNRRA, interim aid programs and ECA at the end of World War II. Only about a third, of that hundred billion dollars represented anything like the normal processes of economics. About 10 billion of it was private remittances, donations, and so on. Another 10 billion was the outflow of private capital. About 15 billion was liquidation of reserves, which depleted the foreign exchange reserves in the European countries to such an extent that they had no margin to play with when the real difficulties hit them after the war.

In view of this situation, what is the objective of the European Recovery Program? (I prefer to call it ERP rather than "ECA" because it is a European program in which we are playing a catalytic part, but we are certainly not the whole show.) Our act says the object of ERP is "the restoration or maintenance in European countries of the principles of individual liberty, free institutions, and genuine independence, which rest largely upon the establishment of sound economic conditions, stable international economic relationships, and the achievement by the countries of Europe of a healthy economy independent of extraordinary outside assistance". The act also says that one of the objectives is to promote the unification of Europe.

Now, considering the situation as I have described it, this statement of purposes in the act means: First, that we must achieve in Europe some improvement in consumption over 1948, that is, some improvement over the relatively low 1948 standard of living in Europe. Considering the expectations of people (in the postwar period particularly) about their own standards of living, an upward tendency of consumption is perhaps the most important single factor in political stability. If people feel that they are getting a little more in real terms than they ever have gotten before, or that there is a possiblity of their getting more in the future, then they have a stake in society as it exists and as it is being improved. If they have no such stake, the Communist appeal which, we all remember, looked pretty good to the Europeans as late as 1947 can look awfully good to them again.

It is interesting to reflect that before the first dollar of ECA aid was actually made available to the governments of Europe, the major political impact of the Marshall Plan had already been felt. Before the first dollar was spent, the Italians had their election and the Italians pushed the Communists to one side, not out of the country, but at least out of the government. All over Europe the same kind of thing was taking place, not because at that moment anybody had any more bread on the table or a higher-paying job or more security in his job, but because the very existence of the Marshall Plan, even before the first ship arrived, was an element of hope in a Europe in which despair had been the ruling emotion up to that time.

So the first thing is to try to insure a general upward tendency of consumption; particularly, to ensure real promise and hope for the future that embodied in investment programs and in provision by the government for social and other services.

The second implication of the general objective of ERP as stated in the Foreign Assistance Act is an end to the dollar deficit in western Europe's external balance of payments, so that this upward tendency of consumption can be maintained without continuing indefinitely the flow of gifts from the United States taxpayers. Achieving this "dollar balance" takes a while. You can eliminate dollar gap any day of the week by just not appropriating any more money. International payments will always balance; the question really is whether the payments are to be balanced at a high or a low level. Unless they are balanced at a fairly high level of trade among the countries of the world, it is impossible to maintain a world in which there is this upward tendency of consumption, or continuing world prosperity.

At the beginning of 1948 the Economic Cooperation Administration was given two tasks. The first task, which is well along, was the revival of production in Europe. The second task, on which we are not so far along, is what I will call the structural readjustments that are going to be necessary in Europe if Europe is to improve its competitive position significantly and permanently.

The organization set up for this purpose is the ECA, the Marshall Plan agency. The ECA was set up to handle the program that was conceived in General Marshall's famous speech at Harvard. The program was born by a series of meetings in Paris of a Committee for European Economic Cooperation. Then the ball came back over here and the Foreign Assistance Act of 1948 was passed. Almost simultaneously, the Organization for European Economic Cooperation, which is the central coordinating point for the Marshall Plan in Europe, was set up in Paris. ECA as an organization in the U. S. Government was formed with a headquarters here and a Paris office, headed by Ambassador Harriman, for coordination of the program in Europe--and with missions in every participating country.

The methods of operation I will touch on relatively briefly at this time. It may be that you will want me to go into that further when we come to the question period afterward.

The initial method of operation set up was to have annual programs in which each country submitted to OEEC, with copies to ECA, not just a program covering what aid they needed, but a program in which the aid figure was arrived at through a reasonably elaborate analysis of their total economic situation, particularly the factors in their economic situation that directly affect their balance of international payments--how much they expected to be able to earn through more vigorous exporting; how much they expected to be able to earn from selling services, for example, services to tourists; what they absolutely had to import; how big their internal investment program was, and in what direction it was taking them; how they intended to control inflation; or in the cases of one or two countries where the problem was not inflation but deflation, how they would avoid the unemployment that results from a too tight credit system or too little public investment. All those factors were wrapped up in a national program and submitted to OEEC.

The result of this process was not in any sense a procurement program. It was a general analysis of their total picture from which could be derived the minimum deficit in their balance of payments, the minimum amount by which their total imports exceeded the maximum amount they could earn from the dollar area. By adding the minimum deficits, the aid figure for western Europe was established.

The amount needed for the Marshall Plan was originally estimated by the Europeans at about 28 billion dollars. That was cut down, before the program got to Congress, to about 17 billion dollars. The final figure will be more like 14.5 or 15 billion at the rate we are now going. The Marshall Plan started with the idea that there should be a declining level of aid from year to year, together with and corresponding increases in the other factors in the total picture of western Europe economy. The total aid was 5 billion dollars the first year, 4 billion dollars the second year; 3 billion has been requested for the third year, and 2 billion will probably be required for the fourth year.

For the first two years, OEEC divided the aid among the recipient countries that is to say, it took the total pie and recommended to ECA how the pie should be cut. That was a most difficult process. It did have the effect, however, of placing squarely on the Europeans themselves the job of taking a pie which they were bound to believe was too small (because all possible needs could not be fitted into it) and making as equitable a distribution as they could possibly make among the various countries. ECA then took those figures and changed them where necessary--but, generally speaking, we changed them very little, in order to emphasize the responsibility that had been placed on the Europeans. ECA then made, from time to time, allotments to the countries of funds which could be used for procurement.

Those allotments were not just free dollars that the countries could use. An allotment is a permit to a country to come in to us with an application for the issuance of a document called a procurement authorization. That is a very bad name, and will no doubt confuse those of you who are experts in military procurement, because in no sense are we a procurement agency; nor do we have very much to do with actual procurement.

When the country comes in with its application for a procurement authorization, we decide, after considering a number of factors, that we will issue a procurement authorization for, say, so many bales of cotton. We will issue that to the participating country concerned, and it is then the participating country's job not ours, to get the cotton bought and shipped.

Most of the actual buying is done through commercial channels. The participating country, having in hand our procurement authorization which is sort of a public letter of credit, can then issue an import license in its own country and sell foreign exchange against it to its own importers. Those importers, knowing they have firm money behind the deal, can make an arrangement with a U. S. exporter or manufacturer or with a manufacturer of some other country which insists on dollar payment for its goods. Usually the procurement authorization will specify not only what can be bought under it, but the preferred source of procurement.

Finally the material will be bought and shipped; and there will flow back to ECA, through American banking institutions which have been designated for the purpose, documentation which reflects the transaction, often a copy of the contract, always a copy of the bill of lading. Those documents come back in to ECA and our Controller, if the documents seem to be in order, then makes a payment to the bank which has in turn financed the transaction originally by paying the exporter. So, strictly speaking, the participating government to whom we are "giving" all this money never in fact sees the color of the greenbacks. The money for the most part doesn't move through the foreign government at all. It moves through a United States bank to a United States supplier in the case of a procurement in the United States.

Now, just to give you a rough idea of where we stand at the moment: We have issued allotments amounting to about 8 billion dollars out of the substantially 9.5 billion that, so far has been made available by Congress for the first $2\frac{1}{4}$ years of the Plan. Against these allotments, authorizations have been issued for about 8 billion. (Three quarters of the 8 billion go to only five countries, which is natural when you compare the size of the economies concerned. Those five countries are the U. K. which gets more than a quarter of the whole, France, Italy, Germany, and the Netherlands, in that order. If you include GARIOA, the appropriation for Government and Relief in Occupied Areas, which has substantially the same purpose as ECA, Germany would be No. 2 on the list after the U.K.) Against those authorizations the Controller has paid out about 6 billion dollars.

In addition to this activity of authorizing procurement, which accounts for most of the money spent by ECA, there are many other special parts of the program, which I will not go into this morning except simply to mention them. There is a Technical Assistance Program for providing know-how and experts and for bringing foreign experts to this country to study. There is a Strategic Materials Program to assist in importing into this country materials which are said to be required, and develops production of such materials. There is the Industrial Projects Program for financing particularly large capital installations in Europe. There is the Overseas Development Program for the purpose of developing underdeveloped areas of ECA countries, that is to say, their colonial dependencies. This is the program which we refer to as our Little Point Four, because it is based on the same idea as the Point Four Program. Authority to conduct this program is, of course, already available in the ECA Act because the colonies are part of the Marshall Plan area.

What has been the effect of these activities? If you take 1938 as a base, industrial production is up to about 118 percent of 1938 production. Over-all, if you average in agriculture (which accounts for 97 or 98 or 99 percent of the total), total production has come from something like 20 percent below the 1938 production to between 5 and 10 percent above. That is a very remarkable production effort during the first two years of the Marshall Plan. Consumption is about back to where it was prewar, with the exception of housing. (It takes a lot longer to raise housing standards abroad, as it does in this country.)

In trade they are still running a deficit both in all currencies and with the dollar account, but the deficit on both accounts is narrowing. The dollar deficit has been cut more or less in half during the period of the Marshall Plan so far. But I wouldn't want you to draw the conclusion from this that the second half is going to go as easily and quickly as the first half. The more you squeeze a lemon the more difficult it becomes to get more juice.

The dollar deficit is still very large in absolute terms. Out of something like 6.25 billion that western Europe has to import from the dollar areas, the 18 countries concerned are covering at the moment only a little over 2 billion with their own earnings and we are providing the rest. So they have a long way to go on dollar account.

Now, what are the next steps in this program? Our analysis of the situation, which we have been conducting very intensively for the last few months, brings us to the conclusion that the Europeans have two big central jobs ahead of them in this program. One job is to create what Paul Hoffman has been calling a single market in Europe; that is to say, to reduce and eliminate the discriminatory measures, trade barriers, tariffs, and so on inside Europe so that the Europeans will be able to create internally, still protected to some extent from the competition of the United States, a large and stable market for their manufactures.

It was only by having such a Europe-wide internal market, a suitable place of doing business for individual firms, a more competitive atmosphere of production, that their costs of production would come down, so that the individual entrepreneurs in each of the European countries could do business at sufficiently low cost and on a sufficiently large scale so that it would be possible for them to compete in the export markets of the world, including our own United States market, with its American manufacturers and workers relentlessly increasing their productivity by the standard 3 percent a year.

The theory is that liberalization of trade within Europe is a first step in the process that must have also a second step. Step A is to place the Europeans in such a position, through "economic integration" that they are enabled to compete successfully with the United States in their own markets as well as in the United States market, to outsell us sufficiently to earn their keep, to earn what it takes to buy the imports they need; at that point, hopefully not too far off, it will be possible to proceed to Step B, to break down also the discriminatory barriers between that new single market and the United States.

The other big job ahead is the achievement of such an improvement in the competitive position of the Europeans that they are able to achieve greatly increased dollar earnings. This is not solely a question of lowering costs, although it is of central importance. Partly it is a question of selling us, of really exploiting the tremendous market that exists in this country. One of the things that ECA is working on most actively at the moment, and will be for the remaining period of the program, is the promotion of imports into the United States, something seemingly unrelated to an aid program for Europe, but in fact with a very direct relationship. Every additional dollar that Europe can earn in this country is a dollar for which the taxpayer doesn't have to dig into his pocket in order to maintain the political stability of Europe and the peace of the world.

If we are ever to catch up with our position as the world's largest creditor, we will need to find ways cheapening the process of maintaining the economic and therefore the political stability of the other major and industrialized part of the free world.

It is important, I think, to look at the significance of this shift in our own program, our own concentration on trying to assist the Europeans increase their dollar earnings through promoting increased imports of goods by this country, because this shift, I think, is simply a forerunner of a very great change in the whole attitude of this country toward the rest of the world. In effect it is a change in which we would admit to ourselves what is clear from the figures; namely, that what we have previously called a favorable balance of trade, that is, exporting more than you are importing, is "favorable" only if you are a debtor, but if you are a large creditor, it is highly unfavorable, because you are constantly a net exporter of your resources, sending out more goods than you are taking in, and thereby in effect decreasing the amount of goods for consumption that would otherwise be available in this country.

I would like finally to refer to one other development in the program. We have found that the "aid" idea that we are assisting these countries to meet something called their "needs," was a very useful concept at the beginning of the Marshall Plan, but now increasingly makes the Marshall Plan a somewhat clumsy instrument of foreign policy. More and more, from month to month, we are shifting over to what Mr. Hoffman has called a "merit system," putting into our administration of aid more and more incentive schemes and performance concepts, getting more and more away from the idea that we are providing an amount of money to each country to which in any sense it is entitled by a demonstration of pure need. This shift in emphasis is made possible, of course, by the very increase in production and in consumption in Europe to which I have referred.

We are doing this primarily in two ways. One is by setting up special "kitties" of funds. If we want them to provide additional investment for their overseas territories, we set up a special fund which is available only for the development of overseas territories. If we want them to liberalize trade within Europe, as we certainly do, we set up a special reserve fund which is available only to promote schemes of cooperation in the elimination of trade barriers in Europe.

In addition, we started this year for the first time and will continue and intensify next year, a procedure for allotting Marshall Plan funds, not entirely according to requirements as calculated, but according to performance by the countries in moving toward the twin objectives which I have mentioned---the integration of Europe and the earning of dollars. So a country which is continuing to run a suppressed inflation, which inflates its import requirements and increases its requirements for aid, cannot expect indefinitely to have us in effect sanction that procedure by meeting the deficit in balance of payments that is created by a wrong economic policy. Similarly, a country like Italy, whose policies have been so deflationary that it has the greatest difficulty in spending the amount of money that we would otherwise be willing to make available, cannot expect to have that money anyway and simply store it up in the bank.

This whole performance concept, I think, will be not only important in promoting the objectives of the Marshall Plan itself, but will represent an important new step in the American process of learning how to use, for the purposes of foreign policy, the various instruments at its command. One of the greatest of these instruments is our export surplus; we are learning how to use that instrument in particular for the accomplishment of the specific purposes which we are seeking in the world, rather than allotting the taxpayers' money primarily on the basis of need calculated on the chart basis. It goes one step further in the direction that General Marshall indicated in his famous Harvard speech, when he insisted that the initiative must come from the Europeans, that it must be from the Europeans' side that 95 percent of the effort comes, and that our part can be the keystone to the arch but we cannot build the entire arch.

COLONEL McCULLOCH: Gentlemen, Mr. Cleveland is ready for your questions.

QUESTION: My understanding is that the aid for Europe is divided into two types. One is direct aid and the other is in the form of loans. In these loans my understanding is that when you give an authorization of credit for purchase outside a country, the country involved then puts that same amount of money in its currency into a special fund to be used within that country. Would you mind going into a little more detail on that subject?

MR. CLEVELAND: What you are referring to is, strictly speaking, not loans but what we call conditional aid, which is actually a form of grant under the act. There are actually three types of assistance. One is direct grant assistance, for which there is no payment, but for which the individual country puts up counterpart funds in its own currency; these funds are then available for either financial or investment uses, with our agreement. Secondly, there are loans, which are handled procedurally in the same way as grants, except that the government undertakes the obligation to repay in dollars, at interest rates and on amortization schedules that you and I would be happy to have in our private financing. Thirdly, there is the conditional aid, to which you refer.

Now, conditional aid is a device, I would call it a temporary or transitional device, for maintaining the flow of trade within Europe. We are getting to a point in 1948 where it simply was not going to be possible for the European countries to trade with each other, because trading with each other implied movements of gold and dollars which they just didn't have or didn't feel they had. Therefore a system was worked out--the so-called intra-European payments scheme.

That scheme calls for setting up, between each country and each other country in the system, a bilateral payments arrangement. They agree on an estimate of whether, for example, England is going to export more to Germany or vice versa, and by about how much. We have then agreed in the payments scheme to cover with conditional aid what amounts to credits or gifts by creditor countries to their debtors. As the Belgians make Belgian francs available to France for the purchase of goods from Belgium, we in turn give dollars to Belgium; and the Belgians are thereby deemed under the act to have made payment, in terms which are consistent with the economic recovery purposes of the act, for the dollars that we give them. That becomes a very complicated scheme, because there are nearly a hundred different bilateral arrangements which have to be cleared every month. From an operating standpoint it is a very complicated operation, but conceptually it is about as simple as I have tried to make it sound.

QUESTION: What effect does the devaluation of the currencies in European countries have on ECA?

MR. CLEVELAND: The main effect of the devaluation of the pound sterling, and the wave of devaluations that immediately followed it, was to put those countries in a somewhat better position to earn dollars. Without any difference at all in their costs between the day before the devaluation and the day after, they were able after devaluation to sell goods at a maximum of around 30 percent cheaper in a dollar market. It hasn't, of course, always worked that they have sold their wares 30 percent cheaper. They have sold them for as much less as was necessary to take the business. Now, that was in a sense the purpose of devaluation. It will presumably have the effect of enabling the countries to increase their earnings if they also go to work on lowering their costs.

But the very short-run effects, of course, of the devaluation run, in a sense, in the wrong direction. It is a step back in order to take two steps forward. In the first place, devaluation means that each European country has to pay more in terms of its own currency for imports; and, since food is one of the main items that are imported into Europe food prices have tended to go up in Europe; there is therefore a tendency to press on rationing and price controls where they exist, a tendency generally to decrease real wages or to make it more difficult for a man to get a loaf of bread with the same amount of money that he bought it with before. As a result, prices have gone up a little in Europe on cost-of-living items. So that is one factor that has increased the pressure toward inflation. That has not to date been so serious as to give rise to any question whether it was a good idea to devalue on that account.

The other short-term effect, which is a step backward, is this: If you sell an export product for 30 percent less in terms of dollars, you have to sell so much more, 43 percent or some such figure, by volume, in order to earn the same number of dollars. So that countries which did devalue are in a sense in the position of a man receiving the ball ten yards behind his own scrimmage line. He has to make up that ten yards before he has gained any ground.

In the longer run, though, the devaluation was a necessary step in bringing the high-priced European economic area into line with the relatively low-priced American economic area. But I would emphasize that it is only one of a number of steps; and that increases in productivity and lowered costs are, of course, necessary complements to it.

QUESTION: Can you tell us something about what progress is being made now toward the integration of the European economies, and if there are real prospects of accomplishing that within the time span of ERP?

MR. CLEVELAND: Well, integration, of course, and how much you will accomplish in the ERP period, depend on how you define that much-bandied-about term. Our definition of "integration" is the substantial elimination of quantitative restrictions on intra-European trade, primarily import restrictions which operate on a quota or quantitative basis; and the elimination of other discriminatory practices (such as the practice of dual prices, where the British or the Germans or Belgians are able to charge, and do in fact charge, higher prices for export commodities than they charge their own people for the same commodities domestically). That is true of British and German coal and Belgian steel. Under their arrangements with us the Belgians have stopped it. It is true of French potash, and so on.

What we mean by integration is the elimination of barriers, plus something more: that is, the setting up of central institutions in Europe, starting with the so-called clearing union or payments union, which is being discussed now in Paris--central institutions for the coordination of the economic and financial policies of the countries concerned and in a sense for the enforcement of arrangements made for the liberalization of trade within Europe. That, as I tried to say before, is step one.

Step two, which must come not much after integration and has to come to some extent even during it, is a reduction of the barriers between that single market and the rest of the world, particularly the dollar world, which can come only as the "dollar shortage" situation is eliminated.

Now, as to prospects, it is much easier to know what you want than to accomplish it in a world where you have eighteen sovereign countries to deal with, each with its own economic problems, its own ideas, and its own dreams about the future or about the past economic position which it occupied in the world. As you will see in the "New York Times" this morning, or practically any other daily newspaper, there is the greatest difficulty in making our agreed objective stick. The problem we are faced with as an agency, and that the U. S. Government is faced with, is the considerable gap between the expectations of the Congress and of the American people about the unification of Europe on the one hand and the practical politics of unification in Europe on the other.

It is our hope that as the first step in setting up institutions for this purpose, real progress can be made in the direction of setting up a clearing union, which will be really an effort to multilateralize the present payments scheme--that is to say, there won't be any bilateral payments arrangements within Europe any more if this thing gets set up the way we would like to see it set up. Each country would have to balance its payments only with respect to all of its trade partners taken as a group. The arrangements for clearing would be entirely handled by a central union, which would operate a rather complicated system of incentive arrangements for taking gold and dollars away from debtors who get too far into debt and arranging for creditors to get only partial dollar payment for any large credits they pile up. That is a highly oversimplified description, and my technical associates would be quite unhappy about it.

QUESTION: I believe Public Law 472 authorizes barter on the part of ECA for acquiring strategic materials for our stockpile. Would you tell us if there have been any applications of this authority, and if so, with what results?

MR. CLEVELAND: Strictly speaking, the law doesn't authorize barter. It does authorize us to acquire strategic materials, not with dollars, because we can't use our appropriated dollars for that purpose, but with counterpart funds. The counterpart funds, which are deposited in the currency of a country that gets direct grant aid, are divided into two parts. There is a 95 percent portion which is available for use only within the country for financial or for investment purposes, and any use has to be by joint agreement with us. The 5 percent portion is an outright gift, sort of a reverse lend-lease, back to the U. S. Government. That is put in a bank, usually in the country in question, but in the name of the U. S. Treasury. Then that money is available for two purposes: First, for our own administrative costs, which are, of course, very small and don't anywhere nearly take up that 5 percent in any country; and, secondly, they are available for the purchase or development of strategic materials.

We have bought some strategic materials with those 5 percent funds. In the case of some countries it is impossible to buy right up to the ceiling of 5 percent. But, by and large, it is a reasonably tough business trying to buy strategic materials from countries which feel that they are able to earn dollars with them if they are badly wanted in the world. So that negotiations on this kind of thing have been very lengthy.

Also, just about when ECA's strategic materials experts are getting to the point where a deal is sewed up with another country, the Munitions Board will decide that the material isn't very strategic any more. So there is a real problem of matching up the deals that we make abroad with the changing character of the critical or strategic list on this side. But to answer your question specifically, some business has been done. It is not dramatically large in amount, but it is really quite considerable.

I think a more interesting and important thing that has been done in the strategic materials field, with both dollars and these 5 percent counterpart funds, is to make arrangements for increasing the production of strategic materials so that the total supply in the future will be larger, even though you are not in many cases able to assure a market for the increased production. An arrangement was worked out, for example, between an American company and a private French company for the development of some very interesting and apparently important-looking lead deposits in French North Africa. There is a considerable amount of that kind of activity going on in various parts of the world, such as in New Caledonia with nickel and in Madagascar with graphite.

QUESTION: Could you tell us what steps ECA has taken to promote imports into the United States? You have touched on some aspects of that, but I would like to hear more about the general picture.

MR. CLEVELAND: The general picture is that, in the first place, we act as a kind of pressure group within the U. S. Government to try to focus attention on this problem. We are not, of course, the only agency that is so acting. The State Department is also doing it. Secretary Atcheson made a major speech on this subject a little while ago. Mr. Hoffman has made a number of speeches in which he has tried to bring the importance of this problem to the attention of the American people.

Second, there is a great deal of what you might call promotional activity going on, for example, getting Chicago to have a trade fair, and then making sure that it is going to be a good trade fair and arranging for participation in it by the various foreign governments concerned. Arrangements may be made for an OEEC exhibit there.

Third, there is a considerable amount of analysis work, which we are really only beginning to tackle now, in an effort to determine from the statistics of past trade and current trade where good possibilities exist for the promotion of imports into this country, and then bringing these leads and possibilities to the attention both of prospective importers in this country or economic groups here which might import them, or, on the other hand, bringing these leads and possibilities to the attention of other participating European governments concerned and through them to the economic groups concerned in Europe.

For example, I noticed in one of our own reports a little while ago that the Italians are selling in this country now only about 2 percent by volume of the Parmesan cheese which they used to sell before the war. Being a great fancier of Parmesan cheese myself and of the spaghetti which goes under it, I was amazed at this state of affairs. It results, of course, from the fact that American manufacturers were able to bring Cheddar or other types of American cheeses into the picture in competition with Parmesan, particularly during the war; and they have now virtually taken over the market.

That represents probably a good specialty product that the Italians might well promote. They used to sell a lot of it in this country. There must be a number of people here who know the product and who could pass the word along, and so on. So that certainly is something for the Italians to promote. It is not our job to sell their cheese. It is our job, we feel, to go so far as pointing out to them that there is a possibility here that they should not dismiss without a very thorough investigation.

Under our technical assistance program we are able to finance the cost of market surveys in this country by foreign businesses or foreign governments who want to feel out the market and see what the possibilities would be. That is an outline of the main activities on the import front.

COLONEL McCULLOUGH: Mr. Cleveland, on behalf of both colleges I express our appreciation for an excellent presentation. Thank you.

(19 May 1950--650)S